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FOREWORD

On February 11, 1944 the Administrator of the Wage and Hour Division, pursuant to the provisions of the Fair Labor Standards Act of 1938 as amended, appointed Special Industry Committee No. 3 for Puerto Rico. It is the duty of this Committee to investigate the economic and competitive conditions in the various industries in Puerto Rico and in each industry to recommend to the Administrator the highest minimum wage (not in excess of 40 cents an hour) which it determines will not substantially curtail employment in the industry. The Act further directs that the Committee shall not recommend a minimum wage rate which will give any industry in Puerto Rico a competitive advantage over any industry in the United States outside of Puerto Rico and the Virgin Islands.

The statistical and other economic data given in the present report have been assembled for the purpose of assisting the Committee to perform its statutory functions in connection with the Puerto Rican Rum Industry. This study does not, however, purport to be a complete economic study of the industry but contains only such currently available information as is believed to be of interest to the Committee in its investigation of the industry's economic and competitive conditions.

The report was prepared by Manuel Cambouri, under the general supervision of Verl E. Roberts, Chief, Minimum Wage Studies Section.

Harry Weiss, Director,
Economics Branch

TABLE OF CONTENTS

	Page No.
A. GENERAL INFORMATION	1
1. Size and Location	1
2. Principal Distilling Companies	1
3. Raw Materials	1
B. UNIONIZATION AND UNION WAGES	2
C. PRODUCTION, STOCKS AND MARKETS	6
1. Production, Stocks and Consumption	6
2. Shipments to the Mainland	6
3. Continental United States Production and Imports	6
D. RECENT ECONOMIC DEVELOPMENTS	12
1. The Tariff	12
2. Transportation and Insurance Costs	12
a. Freight	12
b. Ordinary marine insurance	12
c. War risk insurance	14
3. Prices of rum	14
4. Profits	14
E. EFFECTS OF VARIOUS POSSIBLE MINIMUM HOURLY WAGE RATES	17
1. Number and Percent of Workers Who Would Be Directly Affected	17
2. Direct Effect on Wage Bill	17
3. Direct Effect on Total Production Costs	17

LIST OF TABLES

Table No.		Page No.
1	Rum Industry in Puerto Rico: Collective agreements in effect between specified Unions and seven rum distilling and/or rectifying-bottling companies in Puerto Rico, January 1944	3-4
2	Rum Industry in Puerto Rico: Production and stocks of rum in Puerto Rico, fiscal years 1934-35 to 1942-43	7
3	Rum Industry in Puerto Rico: Quantity of rum withdrawn from bonded warehouses in Puerto Rico for export and for local sale during 1941 and 1942 and first half of 1943	8
4	Rum Industry in Puerto Rico: Exports of rum from Puerto Rico, by countries, fiscal years 1934 - 35 to 1942 - 43 and first quarter of 1943 - 44	9
5	Rum Industry in Puerto Rico: Production of rum in continental United States, for beverage purposes and for denaturation, fiscal years 1933 - 43	10
6	Rum Industry in Puerto Rico: Imports of rum for consumption in continental United States, by countries, 1939 and 1940 and fiscal year 1942-43	11
7	Rum Industry in Puerto Rico: Rates for ordinary marine insurance (free of particular average, American conditions) on rum shipped from Puerto Rico to Mainland ports, February 1944	13
8	Rum Industry in Puerto Rico: Maximum OPA prices, f.o.b. Puerto Rican port of embarkation, of Puerto Rican rum shipped to continental United States, effective as of February 9, 1944	15
9	Rum Industry in Puerto Rico: Net worth, net income and profits of rum distilling and/or rectifying-bottling companies in Puerto Rico, 1941, 1942 and 1943	16
10	Rum Industry in Puerto Rico: Distribution of workers according to average hourly earnings, December 1943 - January 1944	18

LIST OF TABLES (Continued)

Table No.		Page No.
11	Rum Industry in Puerto Rico: Estimated number of workers who would have been directly affected by the establishment of specified minimum hourly wage rates as of December 1943 - January 1944	18
12	Rum Industry in Puerto Rico: Estimated percent increase in wage bills which would have directly resulted from the establishment of specified minimum hourly wage rates, as of December 1943 - January 1944	19
13	Rum Industry in Puerto Rico: Estimated percent increase in total production costs which would have resulted from the establishment of specified minimum hourly wage rates as of December 1943 - January 1944	21

A. GENERAL INFORMATION

1. Size and Location

There are (January 1944) 54 plants in the industry, 1/ of which 15 are distilleries and 39 rectifying-bottling plants. Eleven of the rectifying-bottling plants are owned by companies which also own distilleries. The distilleries are located in 12 different municipalities and the rectifying-bottling plants in 14. There are only 5 municipalities with more than 2 rectifying-bottling plants each, as follows: Mayaguez, 9; San Juan, 7; Rio Piedras, 6; Arecibo and Ponce, 4 each; and Bayamon, 3.

No data are available as to the total number of workers employed in the industry. However, a survey of 24 companies, 2/ out of a total of 41 companies engaged in the industry, made by the San Juan office of the Wage and Hour Division, shows that as of January 1944 the 24 companies employed a total of 2,433 workers.

2. Principal Distilling Companies

The principal rum distilling companies are the Destileria Serrales, Inc., the Puerto Rico Distilling Company, the Barcelo Marquees & Company, the Bacardi Corporation of America and the Cia. Ron Carioca Destileria Inc. Each of these companies produced over one-half million proof gallons of rum either during 1941-42 or 1942-43. All five companies combined accounted for 83 percent of all rum produced on the Island in these two years. Each of these companies owns only one distillery, except the Bacardi Corporation of America, which owns three.

3. Raw Materials

The principal raw material used by the industry is molasses, a by-product of the local sugar industry. Unfortunately no exact data are available as to the quantity of molasses used annually by the industry. However, estimates place the quantity of this material used by the industry in 1943 at from 14 to 15 million gallons. In addition, it is estimated that in 1944 the industry will use about 21 million gallons of molasses or about 40 percent of the total quantity of molasses expected to be produced in that year.

There are no regularly published price quotations on molasses sold on the Island. However, testimony at a Congressional hearing on political, economic and social conditions in Puerto Rico 3/ held during

---

1/ Does not include one distillery which was not in operation in January 1944.

2/ These 24 companies include all but three of all the companies in the industry which in January 1944 produced either for the export trade only or for both the export trade and local trade.

3/ Hearings before the Subcommittee of the Committee on Insular Affairs, House of Representatives, 78th Congress, First Session, Pursuant to H. Res. 159, Part 14, Washington, D. C., October 26, 27 and 28, November 18, 19 and 20, and December 6, 1943, page 1292.

the latter part of 1943 was to the effect that prior to the war the price of Puerto Rican molasses, f.o.b. Puerto Rico, was about 3 cents per gallon. Since then the price has increased considerably, the present OPA ceiling price being 13.6 cents per gallon. In contrast, the price of Puerto Rican molasses, f.o.b. Mainland Atlantic ports, is estimated at about 18 cents per gallon.

Normally, the bulk of molasses produced on the Island is shipped to the Mainland. However, owing partly to a shortage of shipping and partly to disagreement of local sellers and United States Government purchase agencies as to the price to be paid for molasses, 1/ stocks of molasses on the Island since our entrance into the war have been abnormally high.

B. UNIONIZATION AND UNION WAGES

There are three unions active in the industry, as follows:

1. Free Federation of Workers of Puerto Rico
2. General Confederation of Workers of Puerto Rico
3. Liquor Industry Independent Union No. 1

The Free Federation has collective agreements with 5 companies employing 850 workers; the General Confederation with 2 companies employing 304 workers; and the Independent Union with one company employing 273 workers. 2/

The wage provisions of each of these agreements may be summarized as follows:

I. Agreements of Free Federation

Agreement A

This agreement provides for two sets of minimum wages, one for workers engaged in production for intrastate commerce and another for workers engaged in production for interstate commerce 3/. There is only one rate for workers engaged in intrastate commerce--20 cents an hour. However, the rate applies only to workers employed in the bottling department. The rates for workers engaged in production for interstate commerce vary from a low of 35 cents an hour for workers employed in the delivery, warehousing, bottling and barreling departments to a high of 45 cents an hour for stillmen (Table 1).

1/ Ibid., page 1214.

2/ In addition, there is one company employing 90 workers as of October 1943, which also operates under a collective agreement. Unfortunately, no information is available on the identity of the union or the provisions of the agreement.

3/ As used in this report the term "intrastate commerce" refers to production for Island consumption, and the term "interstate commerce" to production for export or for shipment to other parts of the United States.

Table 1. Rum Industry in Puerto Rico: Collective agreements in effect between specified unions and seven rum distilling and/or rectifying-bottling companies in Puerto Rico, January, 1944

Occupations	Minimum hourly wage rates (cents)
I. Agreements of the Free Federation of Workers of Puerto Rico	
Agreement A a/	
Stillmen	.45
Mashmen	.42
Employees in delivery, warehousing, bottling, barreling departments	.35
Employees in bottling department for local consumption	.20
Agreement B	
Employees in bottling, shipping, blending departments; watchmen	.35
Assistant foremen	.40
Agreement C	
Employees in box storeroom, filling department	.18
Employees in bonded warehouse, bottling, rinsing department	.20
Machine labelers	.22
Employees in bottle washing department	(7 cents per case)
Agreement D	
Company agrees to grant an increase of 5 cents an hour in the wage rates of all workers prevailing at the time the agreement was concluded (February 16, 1943).	
II. Agreements of the General Confederation of Workers of Puerto Rico	
Agreement A	
1. Active season	
Cartmen, field personnel	.35
Condenser attendants, delivery men, tank cleaners, warehousemen, shipping employees.	.40
Employees in fermentation, blending, boiler, electric plant and shop departments, truck drivers	.45
Stillmen, solderers	.50

a/ Applicable to workers of two companies.

Table 1. Rum Industry in Puerto Rico: Collective agreements in effect between specified unions and seven rum distilling and/or rectifying-bottling companies in Puerto Rico, January, 1944 (continued)

Occupations	Minimum hourly wage rates (cents)
2. Dead season	
General repair and other workers	.40
Two assistant mechanics, carpenters, masons and painters	.45
Agreement B	
1. Workers engaged in production for interstate commerce	
All plant workers, except machine labelers	.30
Machine labelers	.35
2. Workers engaged in production for intrastate commerce	
Bottle washing department:	
Mechanics	.25
Conveyor men, mechanics' helpers	.17
Other employees in machine washing department and workers by hand	.125
Loading and unloading departments:	
Employees engaged in unloading, stocking and moving within factory packing material and finished products	.20
Bottling department:	
Bottle cleaners and rinsers, machine filling operators, cappers, conveyor men, workers employed in packing, bottling and removing finished products	.15
Machine labelers	.25
Stockers	.18
III. Agreement of Liquor Industry Independent Union No. 1	
Janitors	.34 2/3
Cartmen, labelers, employees in bottling department and other similar workers, factory and bonded warehouse workers	.40
Firemen, batey cleaners, mechanics' helpers, messengers	.45
Chauffeurs, stillmen, coopers' helpers	.50
Coopers	.70

Source: Collective agreements between unions specified above and rum companies

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Agreement B

This agreement provides for only two rates--35 cents an hour for watchmen and workers employed in the bottling, shipping and blending departments and 40 cents an hour for assistant foremen (Table 1).

Agreement C

Apparently at the time this agreement was concluded, the company produced only for intrastate commerce and all rates provided in the agreement are lower than the 30-cent hourly minimum prescribed by the Act. These rates range from a low of 18 cents an hour for workers employed in the box storeroom and filling department to a high of 22 cents an hour for machine labeling operators. Workers employed in washing bottles are paid by the piece--seven cents per case (Table 1).

Agreement D

This agreement does not specify any rates but merely states that all rates should be increased five cents an hour over those which prevailed at the time the agreement was concluded (February 16, 1943) (Table 1).

II. Agreements of the General Confederation

Agreement A

This agreement provides for two sets of rates, one applying during the active season and the other during the dead season. The rates applying during the active season vary from a low of 35 cents for cartmen and field personnel to a high of 50 cents an hour for stillmen and solderers; the rates applying during the dead season are 45 cents for assistant mechanics, carpenters, masons, and painters and 40 cents an hour for general repair and other workers (Table 1).

Agreement B

This agreement, like agreement A of the Free Federation, provides for two sets of rates, one for workers employed in production for intrastate commerce and another for workers employed in production for interstate commerce. The rates for workers employed in production for intrastate commerce vary from a low of 12.5 cents an hour for all workers employed in the bottle washing department, except mechanics, conveyor men and mechanic helpers, to a high of 25 cents an hour for machine labelers. The rates for workers employed in production for interstate commerce are 35 cents an hour for machine labelers and 30 cents an hour for all other workers (Table 1).

III. Agreement of Independent Union No. 1

This agreement provides for 5 different rates, varying from a low of 34 2/3 cents an hour for janitors to a high of 70 cents an hour for coopers (Table 1).

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C. PRODUCTION, STOCKS AND MARKETS

1. Production, Stocks and Consumption

Production of rum on the Island, which from 1935-36 to 1939-40 amounted to less than three million proof gallons annually, rose sharply to 4,687,284 proof gallons in 1940-41, 6,914,161 proof gallons in 1941-42 but dropped to 5,621,701 proof gallons in 1942-43 (Table 2). On the other hand, stocks of rum rose steadily from 1,462,161 proof gallons at the end of 1935-36 to 7,416,815 proof gallons at the end of 1941-42 (Table 2).

Practically all rum produced on the Island is either consumed locally 1/ or shipped to the Mainland (Table 3). Since 1941 over one half of the total quantity of rum withdrawn from bonded warehouses was for export.

2. Shipments to the Mainland

Shipments of rum from Puerto Rico to the Mainland, which up to 1940-41 amounted to less than two million proof gallons annually, rose sharply to 3,648,422 proof gallons in 1941-42 but declined to 2,334,223 proof gallons in 1942-43 (Table 4). However, during the first quarter of 1943-44 alone such shipments amounted to 2,080,707 proof gallons. The sharp increase in such shipments since 1941 is due to the diversion of whiskey and gin distilling facilities on the Mainland to the production of industrial alcohol and consequent scarcity of both domestic whiskey and domestic gin on the Mainland market.

3. Continental United States Production and Imports

No comprehensive data are available as to the quantity of rum manufactured on the Mainland for beverage purposes. However, such data as are available would seem to indicate that the quantity of such rum made on the Mainland is relatively small. For example, in 1940 out of a total of 2,477,702 tax gallons and in 1941 out of a total 2,614,946 tax gallons of rum manufactured on the Mainland, only 718,991 tax gallons and 818,761 tax gallons, respectively, were for beverage purposes, the rest being destined for denaturation and use as tobacco flavoring (Table 5).

As a result of the increasing scarcity of domestic whiskeys and gins, imports of rum into continental United States rose from 1,494,223 proof gallons in 1939 and 2,235,757 proof gallons in 1940 to 4,416,745 proof gallons during the year ended June 30, 1943 (Table 6). Over three fourths of these imports came from Puerto Rico and the Virgin

---

1/ In addition to locally produced rum, the Island consumes small quantities of Mainland and foreign rum (during the three years ended in 1940-41, annual imports of rum from the Mainland and foreign countries, principally Cuba, amounted to less than 15,000 proof gallons).

Table 2. Rum Industry in Puerto Rico: Production, and stocks of rum in Puerto Rico, fiscal years 1934 - 35 to 1942 - 43
(in proof gallons)

Fiscal year	Production	Stock on hand at end of year
1934 - 35	93,739	74,131
1935 - 36	2,062,812	1,462,161
1936 - 37	2,035,330	2,175,408
1937 - 38	2,237,633	2,650,890
1938 - 39	2,138,733	4,318,332
1939 - 40	2,857,078	5,149,567
1940 - 41	4,687,284	6,441,810
1941 - 42	6,914,161	7,416,815
1942 - 43	5,621,701	a/

Source: Government of Puerto Rico: Department of Agriculture and Commerce, Annual Book on Statistics, fiscal year 1940 - 41; Annual Report of the Treasurer of Puerto Rico, fiscal year 1941 - 42 and Insular Bureau of Alcoholic Beverages and Narcotics

a/ No data available.

Table 3. Rum Industry in Puerto Rico: Quantity of rum withdrawn from bonded warehouses in Puerto Rico for export and for local sale during 1941 and 1942 and first half of 1943
(in proof gallons)

Year	For export	For local sale	Total	Ratio of quantity withdrawn for export to total quantity withdrawn (percent)
1941	2,856,203	1,602,211	4,458,414	64.1
1942	2,656,993	2,036,076	4,693,069	56.6
1943 (first half)	1,680,290	530,450	2,210,740	76.0

Source: Spirits Service Institute Bulletin No. 5, August 3, 1943

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Table 4. Rum Industry in Puerto Rico: Exports of rum from Puerto Rico, by countries, fiscal years 1934-35 to 1942-43 and first quarter of 1943-44

Fiscal year	To Continental United States			To foreign countries		Total	
	Number of firms exporting	Quantity (proof gallons)	Value (dollars)	Quantity (proof gallons)	Value (dollars)	Quantity (proof gallons)	Value (dollars)
1934-35	a/	15,244	40,593	143 b/	280 b/	15,387	40,873
1935-36	a/	186,262	1,040,409	3	12	186,265	1,040,421
1936-37	a/	458,389	2,028,231	93	400	458,482	2,028,631
1937-38	a/	694,216	3,106,279	137	630	694,353	3,106,909
1938-39	a/	700,613	3,194,849	626	1981	701,239	3,196,830
1939-40	16	1,137,235	5,567,765	716	711	1,137,951	5,568,476
1940-41	24	1,809,897	6,831,487	117 c/	152 c/	1,810,014	6,831,639
1941-42	20	3,648,422	a/	a/	a/	a/	a/
1942-43	21	2,334,223	a/	a/	a/	a/	a/
1943-44 (1st quarter)	19	2,080,707	a/	a/	a/	a/	a/

Source: Government of Puerto Rico: Department of Agriculture and Commerce, annual Book on Statistics, fiscal year 1940-41; and Department of Finance, Bureau of Alcoholic Beverages and Narcotics

a/ No data available.

b/ Figure covers all distilled liquors.

c/ Data cover exports from July 1940 to March 1941.

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Table 5. Rum Industry in Puerto Rico: Production of rum in Continental United States for beverage purposes and for denaturation fiscal years 1933 - 1943

Fiscal year	Tax gallons a/
1933	1,298,760
1934	1,318,482
1935	3,102,473
1936	2,106,648
1937	2,523,627
1938	2,170,269
1939	2,442,689 a/
1940	2,477,702 b/
1941	2,614,946 c/
1942	3,106,125
1943	2,314,227

Source: Hearings before a subcommittee on the Judiciary United States Senate, 78th Congress, 1st session on S - Res. 206, a resolution authorizing an investigation of the Alcoholic Beverage Industry, Part 1, December 10, 16 and 17, 1943, page 133 and United States Treasury Department, Annual Report of the Commissioner of Internal Revenue, fiscal years 1940 - 1943

a/ Except for 1940 and 1941 no separate data are available as to the quantity of rum produced for beverage purposes and for denaturation.

b/ Includes 1,758,711 gallons produced for denaturation.

c/ Includes 1,796,185 gallons produced for denaturation.

(01155)

Table 6. Rum Industry in Puerto Rico: Imports of rum for consumption in continental United States, by countries, 1939 and 1940 and fiscal year 1942 - 43

Country	1939		1940		1942-43 a/
	Quantity (proof gallons)	Value (dollars)	Quantity (proof gallons)	Value (dollars)	Quantity (proof gallons)
American territories:					
Puerto Rico	919,186	4,413,129	1,445,306	6,366,261	2,237,088
Virgin Islands	181,204	227,638	383,810	501,924	1,275,988
Total	1,100,390	4,640,767	1,829,116	6,868,185	3,513,076
Foreign countries:					
France	14,098	48,241	10,373	29,558	b/
Jamaica	117,781	430,043	132,181	478,691	b/
Cuba	175,496	904,959	162,130	815,397	b/
British Guiana	12,803	33,243	15,641	40,995	b/
Philippine Islands	53,089	63,612	78,224	91,941	6,153
Others	20,566		8,092	22,470	b/
Total	393,833	1,510,387	406,641	1,479,052	903,669
Grand total	1,494,223	6,151,154	2,235,757	8,347,237	4,416,745

Source: U. S. Department of Commerce; Foreign Commerce and Navigation, 1939 and 1940; and Hearings before a subcommittee on the Judiciary United States Senate, 78th Congress, 1st session on S. R. 206, a resolution authorizing an investigation of the Alcoholic Beverage Industry, part 1, December 10, 16 and 17, 1943, pp. 148 and 150

a/ No data available on value of imports during the fiscal year 1942-43.

b/ Included in total; no separate data available.

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Islands, principally the former, and the balance largely from Cuba 1/ and Jamaica.

D. RECENT ECONOMIC DEVELOPMENTS

1. The Tariff

Prior to September 3, 1934 the import duty on Cuban rum was $4.00 per proof gallon and on rum from other foreign countries $5.00 per proof gallon. However, as of that date, the import duty on Cuban rum was reduced to $2.50 per proof gallon, and as of June 3, 1935 to $2.00 per proof gallon. As of the latter date the import duty on rum from other foreign countries, except Germany, was also reduced to $2.50 per proof gallon. The reduced duties shown above are for rum imported in containers of one gallon or less.

2. Transportation and Insurance Costs

The principal costs involved in the transportation of rum from Puerto Rico to the Mainland are freight and insurance, the cost of both of which varies considerably, depending on type of vessel used (regular steamers or small vessels) 2/ and period of year during which shipment is effected.

a. Freight

The cost of this item when the cargo moves in regular steamers is 29 cents per cubic foot plus a surcharge of 25 percent. No definite data are available as to the precise cost of this item when the cargo moves in small vessels. However, an important trader in Puerto Rican rum who at present uses exclusively small vessels in the transportation of his product from Puerto Rico to the Mainland stated that his freight cost is about one dollar per case of from 1.4 to 2.0 cubic feet or about 60 cents per cubic foot.

b. Ordinary marine insurance

Table 7 shows the rates charged for ordinary marine insurance for rum shipped from Puerto Rico to the Mainland in small vessels not over 25 years old. It will be noted that for rating purposes the vessels engaged in this trade are divided into three classes ((1) wooden or steel motor or steam vessels; (2) sailing vessels equipped with Diesel auxiliary power; and (3) sailing vessels equipped with gasoline auxiliary power or no auxiliary power at all) and that the lowest rate applies to cargoes shipped in vessels of class 1 and the highest rate

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1/ A news item in the New York Times for February 18, 1944 was to the effect that the Foreign Economic Administration has frozen imports of liquor from Cuba, consisting chiefly of rum, during 1944 to a level not in excess of those of 1943.

2/ It is estimated that at present over 80 percent of the rum shipped from Puerto Rico to the Mainland moves in small vessels of about 100 tons net, a condition due to the brisk demand on the Mainland for Puerto Rican rum and absence of sufficient space in regular steamers to take care of the Puerto Rican rum traffic.

Table 7. Rum Industry in Puerto Rico: Rates for ordinary marine insurance (free of particular average, American conditions) on rum shipped from Puerto Rico to Mainland ports, February 1944

Class of vessels b/	Rates per $100.00 valuation a/	
	Period of year	
	From November 1 to June 30 (dollars)	From July 1 to October 30 (dollars)
1. Wooden or steel motor or steam vessels	3.15	4.15
2. Sailing vessels equipped with Diesel auxiliary power	5.15	7.15
3. Sailing vessels equipped with gasoline auxiliary power or no auxiliary power at all	6.15	8.15

Source: American International Underwriters Corporation

a/ Rates include 15 cents for surcharge.

b/ Vessels no more than 25 years old.

to cargoes shipped in vessels of class 3. It will further be noted that owing to the fact that atmospheric conditions in the Caribbean area are subject to greater disturbances between July 1 and October 30 than between November 1 and June 30, the rate applicable to shipments effected during the former period is somewhat higher than the rate applicable to shipments effected during the latter period.

c. War risk insurance

The cost of this item is the same for all types of vessels (regular steamers and small vessels) and for all seasons of the year - 75 cents per one hundred dollars valuation.

3. Prices of Rum

The price at which Puerto Rican rum shipped to the Mainland may be sold is controlled by OPA Maximum Price Regulation 183-A, a regulation issued on February 8, 1944 and made effective as of the following day (February 9).

Table 8 shows the maximum prices at which such rum may be sold under the above mentioned regulation. It will be noted that the price varies according to the strength of the beverage and size of containers. In addition, the prices shown in the table are for sales consummated on the Island (f.o.b. Puerto Rican port of embarkation). Where the sale is consummated on the Mainland, the seller is allowed to add to the prices shown in Table 8 actual insurance and freight costs incurred.

4. Profits

In order to determine profits in the industry, the Wage and Hour Division asked the firms engaged in the industry to submit data on net worth and net income in 1941, 1942 and 1943. However, only 13 firms reported data for 1941 and 1942 and 9 for 1943. Of the 13 firms which supplied data for 1941 and 1942, 6 were distillers and rectifiers-bottlers and 7 were rectifiers-bottlers; of the 9 firms which supplied data for 1943, 3 were distillers and rectifiers-bottlers and 6 were rectifiers-bottlers. Data available indicate that these firms combined accounted for at least 40 percent of the wages paid by the industry during each year under survey.

The results of this survey are shown in Table 9. According to this table, the ratio of net income to net worth for all firms combined was 21.82 percent in 1941, 30.66 percent in 1942 and 36.39 percent in 1943. It should be noted that the ratio of net income to net worth of rectifiers-bottlers was nearly twice as great in 1942 and 1943 (and nearly 4 1/2 times as great in 1941) as the ratio of net income to net worth of distillers and rectifiers-bottlers.

Table 8. Rum Industry in Puerto Rico: Maximum OPA prices, f.o.b. Puerto Rican port of embarkation, of Puerto Rican rum shipped to continental United States, effective as of February 9, 1944 a/

Proof (degrees)	Size of cases					
	12 1/5 quarts	12 quarts	24 pints	24 1/5 pints	48 1/2 pints	Miniatures 48 1/10 pints
85	$ 7.32	$ 8.69	$ 9.19	$ 8.07	$ 9.69	$ 8.94
86	7.37	8.75	9.25	8.12	9.75	8.98
89	7.52	8.93	9.43	8.27	9.93	9.09
90	7.57	8.99	9.49	8.32	9.99	9.12
120	9.00	10.79	11.29	9.75	11.79	10.20
125	9.24	11.09	11.59	9.99	12.09	10.38
151	10.49	12.65	13.15	11.24	13.65	11.32

Source: Federal Register, February 10, 1944, page 1593

a/ The prices in this table do not include Federal Excise and rectification taxes or the cost of strip stamps, which may be added to the above prices to the extent actually paid.

Maximum prices are established for all degrees of proof; the adjustment to determine the maximum price for any degree of proof not listed in the table is 2 cents per degree of proof per gallon.

Table 9. Rum Industry in Puerto Rico: Net worth, net income and profits of rum distilling and/or rectifying-bottling companies in Puerto Rico, 1941, 1942 and 1943

Year	Number of companies reporting	Net worth (dollars)	Net income a/ (dollars)	Ratio of net income to net worth (percent)
1941:				
Distillers and rectifiers-bottlers	6	2,605,086	298,333	11.45
Rectifiers-bottlers	7	896,287	465,567	51.94
Total	13	3,501,373	763,900	21.82
1942:				
Distillers and rectifiers-bottlers	6	2,800,333	616,926	22.03
Rectifiers-bottlers	7	1,337,795	651,820	48.72
Total	13	4,138,128	1,268,746	30.66
1943:				
Distillers and rectifiers-bottlers	3	1,087,231	235,770	21.69
Rectifiers-bottlers	6	1,792,465	812,201	45.31
Total	9	2,879,696	1,047,971	36.39

Source: Survey made by San Juan office of the Wage and Hour Division, January 1944

a/ Net income after payment of or provision for income tax.

(01155)

E. EFFECTS OF VARIOUS POSSIBLE MINIMUM HOURLY WAGE RATES 1/

1. Number and Percent of Workers Who Would be Directly Affected

Tables 10 and 11 show the number and percent of workers in the industry who would have been directly affected by the establishment of various minimum hourly wage rates as of December 1943 - January 1944. According to these tables, a 35 cent minimum hourly wage rate would have affected 1,048 workers, or 43.1 percent of the total; and a 40 cent minimum hourly wage rate, 1,902 workers or 78.2 percent of the total.

2. Direct Effect on Wage Bill

Table 12 shows the percent increases in the wage bill of the industry which would have directly resulted from the establishment of various minimum hourly wage rates, as of December 1943 - January 1944. According to this table, a 35 cent minimum hourly wage rate would have increased the wage bill of the industry 4.7 percent, and a 40 cent minimum hourly wage rate, 14.2 percent. 2/

3. Direct Effect on Total Production Costs

The direct effect of a given minimum hourly wage rate on the total production costs of an industry is determined by multiplying the percent increase in the wage bill of the industry resulting from the given minimum hourly wage rate by the ratio of labor costs to total production costs. Unfortunately, no definite data are at present available on the relation between labor costs and total production costs in the industry 3/. Under the circumstances, the best that can be done is

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1/ The data shown in this part of the report are based on data collected through a wage survey made by the San Juan office of the Wage and Hour Division. The survey covered 24 companies out of a total of 27 companies which at the time the survey was made produced either for the export trade only or for both the export trade and local trade.

2/ The above estimates do not make allowance for increases which might be granted to workers whose hourly earnings at the time the wage survey was made were equal to or greater than a specified minimum hourly wage rate. Under the Fair Labor Standards Act such increases are not mandatory but it should be recognized that higher minimum hourly wage rates may bring them about indirectly. In addition, the estimates do not make allowance for possible increases in labor productivity and reductions in labor turnover rates which may result from higher earnings. These and other factors may offset the increase in the wage bill to an extent that the unit labor cost may rise by less than is indicated by the estimated wage bill increases.

3/ A study made by the Wage and Hour Division in 1940 of costs of production of five rum companies in Puerto Rico which produced for interstate commerce showed ratios of labor costs to production costs varying from 2.9 percent to 5.9 percent. Production costs included all operating costs less management costs, which latter costs were not reported by all companies surveyed.

(01155)

Table 10. Rum Industry in Puerto Rico: Distribution of workers according to average hourly earnings, December 1943 - January 1944

Average hourly earnings (cents)	Number of workers	Percentage distribution	
		Simple	Cumulative
30.0 - 30.9	1,040	42.7	42.7
31.0 - 31.9	-	-	42.7
32.0 - 32.9	1	a/	42.8
33.0 - 33.9	1	a/	42.8
34.0 - 34.9	6	.2	43.1
35.0 - 35.9	822	33.8	76.9
36.0 - 36.9	6	.2	77.1
37.0 - 37.9	25	1.0	78.1
38.0 - 38.9	1	a/	78.2
39.0 - 39.9	-	-	78.2
40.0 and over	531	21.8	100.0
Total number of companies surveyed	24		
Total number of workers surveyed	2,433		
Average hourly earnings in cents	36.9		

Source: Survey made by the San Juan office of the Wage and Hour and Public Contracts Divisions, December 1943 - January 1944

a/ Less than one tenth of one percent.

Table 11. Rum Industry in Puerto Rico: Estimated number of workers who would have been directly affected by the establishment of specified minimum hourly wage rates as of December 1943 - January 1944

Minimum hourly wage rates (cents)	Estimated number of workers who would have been affected	
	Number	Percent
31	1,040	42.7
32	1,040	42.7
33	1,041	42.8
34	1,042	42.8
35	1,048	43.1
36	1,870	76.9
37	1,876	77.1
38	1,901	78.1
39	1,902	78.2
40	1,902	78.2

Source: Survey made by the San Juan office of the Wage and Hour and Public Contracts Divisions, December 1943 - January 1944 (01155)

Table 12. Rum Industry in Puerto Rico: Estimated percent increase in wage bills which would have directly resulted from the establishment of specified minimum hourly wage rates as of December 1943 - January 1944

Minimum hourly wage rate (cents)	Estimated percent increase in wage bills
31	.7
32	1.7
33	2.7
34	3.7
35	4.7
36	6.6
37	8.5
38	10.4
39	12.3
40	14.2

Source: Survey made by the San Juan office of the Wage and Hour and Public Contracts Divisions, December 1943 - January 1944

(01155)

to assume various possible ratios of labor costs to total production costs and base the calculation of effects on total production costs on such assumed ratios, leaving to the public hearing which will be held in connection with the Industry Committee meeting the question of eliciting information on the precise relation between labor costs and total production costs in the industry.

Table 13 shows the calculation for five hypothetical ratios, ranging from 2 percent to 10 percent. It will be noted that the percent increases in total production costs vary directly with the magnitude of the minimum hourly wage rates and assumed cost ratios. Thus, on the basis of a 6 percent ratio, a 35 cent minimum hourly wage rate would have increased total production costs 0.3 percent and a 40 cent minimum hourly wage rate, 0.9 percent, while on the basis of a 10 percent ratio, the same minimum hourly wage rates would have increased total production costs 0.5 percent and 1.4 percent, respectively.

(01155)

Table 13. Rum Industry in Puerto Rico: Estimated percent increase in total production costs which would have resulted from the establishment of specified minimum hourly wage rates as of December 1943 - January 1944

Minimum hourly wage rates (cents)	Percentage increase in total production costs when labor cost ratio is -				
	2.0	4.0	6.0	8.0	10.0
31	a/	a/	a/	.1	.1
32	a/	.1	.1	.1	.2
33	.1	.1	.2	.2	.3
34	.1	.1	.2	.3	.4
35	.1	.2	.3	.4	.5
36	.2	.3	.4	.5	.7
37	.2	.4	.5	.7	.9
38	.2	.5	.6	.8	1.0
39	.2	.5	.7	1.0	1.2
40	.3	.6	.9	1.1	1.4

Source: Wage data obtained from survey made by the San Juan office of the Wage and Hour and Public Contracts Divisions, December 1943 - January 1944.

a/ Less than one tenth of one percent.

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